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Banks were reeling from a credit crunch. Mortgage firms were collapsing. A steep recession was looming. So the U.S. government set up a corporation to buy troubled home loans and distressed properties, stabilizing the financial system.

The year was 1989, the challenge the savings-and-loan crisis.

Now, as another credit crunch threatens the nation's economy, a proposal to create a similar body to help homeowners avoid foreclosure has emerged from the chairman of the Senate Banking Committee.

While it has won support from some Republican and Democratic lawmakers, it is far from being approved. The suggestion to use taxpayer dollars to buy risky mortgages and refinance them for financially distressed homeowners is particularly sensitive.

The Home Owners' Loan Corporation, as it is called, would offer to buy mortgages at steep discounts from mortgage firms and banks and then rework the loans based on the reduced value of the properties, making the payments more manageable for homeowners.

The plan's advocates say everyone involved would benefit. Banks would lose money but not their shirts. The homeowners would keep their homes. And tax dollars would be spent only if the homeowners defaulted on their refinanced mortgages. The government could even turn a profit if the market recovers and its mortgage holdings rise in value.

"History is often our teacher, and when we looked back at a time when our economy was in a downturn, we came across this idea," said Sen. Christopher J. Dodd, the banking committee chairman. "Certainly the widespread nature and consequences of the foreclosure problem in our nation merit out-of-the-box thinking and innovative solutions."

A new home loan corporation would require about \$10 billion to \$20 billion in seed money, according to Dodd's aides.

"The risk of doing it is you are putting taxpayer money on the line," said Alex J. Pollock, a resident fellow at the conservative American Enterprise Institute, who supports the proposal. "But the risk of not doing it is you are . . . potentially allowing a downward spiral, which is also damaging to taxpayers." He added, "There are no perfect choices at this point."

Mortgage analysts and regulators have estimated that several million families will lose their homes over the next two years as the housing downturn worsens. Many of these people own homes that have fallen so much in value that they are now worth less than their mortgages.

The government has put tax dollars at risk in economic crises before. In 1989, it formed the Resolution Trust Corp., which helped distressed savings and loans and other financial firms liquidate their holdings in an orderly manner. During the Great Depression, a homeowners loan corporation helped families across the nation get out of onerous mortgages.

In both cases, the government turned a profit after the markets recovered. Tax dollars were used to set up the corporations, and the money was returned to the U.S. Treasury when the agencies were disbanded after the crises.

Treasury officials, who would be responsible for running or regulating the proposed home loan corporation, have expressed concerns over using tax dollars in any bailout of homeowners or financial firms because this would reward people who made bad decisions.

A Treasury spokeswoman said yesterday that senior department officials would like to study the proposal further.

"Treasury is always open to hearing new ideas to help struggling homeowners. And we are aware of the concept Senator Dodd has outlined. At this time, we are focused on, and pleased

with, the progress that the private-sector Hope Now initiative has shown," Jennifer Zuccarelli said, referring to the Bush administration's mortgage relief plan announced last month. That initiative, which uses no public money, aims to help only homeowners with subprime, adjustable-rate mortgages and a good payment history by temporarily freezing their loan rates.

Dodd's idea is scheduled to be taken up at a Senate banking committee hearing today. His aides said he plans to ask Under Secretary of Treasury Robert Steel and Federal Deposit Insurance Corp. Chairman Sheila Bair to weigh in on the proposal.

The idea has already generated some bipartisan support. Rep. Joe Baca (D-Calif.) introduced legislation in the House in November to establish the corporation. Rep. Mark Steven Kirk (R-Ill.) this week pushed for the corporation to be included in the House's economic stimulus package, saying it "would put us on a path to stave off a mortgage-default spiral and bolster our economy."

Citing the experience during the Depression, Kirk said "the corporation was a temporary institution that stopped a crisis, kept Americans in their homes and then closed, repaying the taxpayer with a profit."

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